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SUBJECT: DEATH BY A THOUSAND BITES: MUNICIPAL LEVEL
CORRUPTION IN BRAZIL

REF: BRASILIA 1055

1. (SBU) Introduction and Summary: In recent months, Brazil's press has focused intently on municipal-level graft and corruption. Many of the horror stories are being planted by the Federal Comptroller General's (CGU) office that is conducting random audits and inspections of many of Brazil's 5,560 municipalities. Based on the CGU's own investigations, severe corruption is identifiable in over two-thirds of the municipalities inspected while most of the rest have significant accounting "irregularities." The financial impact from the local "fire ants" on Brazil's social and economic health is staggering. While the CGU campaign is commendable, there is no evidence yet of a GOB action plan to attack local level corruption. End summary

A Plague of Fire Ants...

2. (U) Thanks to high profile press events by Brazil's Federal Comptroller General's (CGU) office, municipal level corruption is receiving wide press attention. In a recent edition, Brazil's largest circulation newsmagazine "Veja" headlined "A National Plague, Corruption and Ineptitude Devour More Than 20 Billion Reals a Year." Using the analogy of an epidemic of fire ants, the story listed by name a plethora of corrupt mayors, city councilpersons, and other local officials throughout the country who misappropriated federal resources destined for their municipalities. The total is huge. Over 107 billion reals (about USD 38 billion) from the federal budget were appropriated in 2003 for Brazil's 5,560 municipalities -- a level that has risen almost 70% since 1995. Of this amount, at least 20 billion reals is estimated to have disappeared last year through corrupt or inept behavior.

3. (U) Examples of malfeasance among Brazil's municipalities are being widely publicized in the Brazilian press. While high profile alleged corruption cases, such as that of former Sao Paulo Mayor Paulo Maluf (who announced last week that he was running again for the Sao Paulo mayorship) may measure graft in the hundreds of millions of reals, it is corruption at the very local level that is increasingly coming under public scrutiny, particularly through the CGU municipality inspection lottery. Every six-eight weeks the CGU randomly selects 50 municipalities for immediate fiscal audit of programs financed with federal resources, either through federal agencies or direct transfers to state and municipal-level administrative entities. The inspection process began in 2003 and has revealed local corrupt behavior that was always assumed but rarely spotlighted.

4. (U) Recent revelations indicate that the impact on Brazil is enormous. Daily newspaper "Jornal do Brasil" described how a corrupt official in Bahia had converted federal funds into "royalties" to companies for road projects that were never constructed. Taking funds destined for providing power lines for farmers, one mayor managed to have a third of the grid built on his farm. When queried, he responded, "I have half a dozen cows. I am a citizen equal to anyone else. Should I stop being mayor in order to build a power line on my farm?" An account in "Veja" told of a mayor in the Northeastern state of Para who in just six months and during three visits to the state capital to collect his municipality's federal appropriation, managed to be "robbed" on each occasion for a total of 360,000 reals. Other examples of corrupt behavior included double payments on contracts, overbilling, phantom corporations, extra bonuses for local officials, nepotism, bounced checks, diversion of public money directly into personal accounts, personal use of official vehicles and fuel, bribery, and false accounting practices. Failure to complete already funded infrastructure projects is common.

5. (U) The Federal Comptroller General identified extensive malfeasance and mismanagement at the local level. After completing audits of 200 municipalities, the CGU identified 139 (70%) as being severely corrupted. Only seven (3.5%) were deemed as both "clean and accurate," while the rest exhibited accounting "irregularities." CGU inspections also revealed widespread failure of community councils,

created to provide local oversight over programs, to fulfill their mandate. In most cases, councils were constituted only formally but never held meetings, let alone conduct actual public oversight. Impartiality within the councils was rare. Many council members, often municipal employees, were selected by the same mayors responsible for the use of federal funds.

16. (U) The greatest level of malfeasance appears in Brazil's impoverished North and Northeast. GOB Comptroller General Waldir Pires confirmed a close link between "political backwardness" (common in Brazil's Northeast and North) and corruption. As an example, he noted that CGU audits of just a small number of Northeastern municipalities in just one month identified the diversion of 17.7 million reais (about USD 6 million) from SUDENE (the Northeast Development Superintendency), an agency that was finally disbanded for endemic corruption and ineffectiveness.

...A Plague of Councilpersons

17. (SBU) Brazil's federal system also deserves some blame for this state of affairs. Brazil's town halls receive about 15% of all tax receipts as opposed, for example, to Mexico's 3%. Former Finance Minister Mailson da Nobrega believes that Brazil's mayors in fact access even more funds, perhaps 40% of the country's total tax receipts -- money for which they have no legal right or responsibility. Meanwhile, there are more mayors and city councilmen at the trough than ever before. Since the early 1990s, more than 1,000 municipalities have been created, many with no legal, economic, or social justification. The country has had to sustain 60,276 local councilpersons. A recent decision by Brazil's Supreme Electoral Court (TSE) reduced this number nationwide by 8,500 -- a step, many believe, in the right direction. Congress, however, is fighting to pass a Constitutional amendment that would raise the number above the new 51,700 level (reftel).

18. (SBU) Comment: While it is impossible to prevent all the fire ants from taking bites out of the public purse, the CGU's inspection campaign is having a positive impact by documenting both specific cases and the extent of the problem, thus making corruption a topic of discussion preceding municipal elections in October. With the CGU inspections, evidence of malfeasance is not lacking. But identification of corruption is only part of the battle. Successful prosecutions are needed. Though the CGU claims it sends many cases of malfeasance to federal prosecutors, prosecutions have not yet occurred. The Lula administration deserves credit for highlighting municipal level corruption but there is no evidence yet of a GOB action plan to attack the problem with effective prosecutions or resistance to political acts (such as the efforts to re-establish thousands of council positions) that can create conditions for local corruption.

Hrinak